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SUBJECT: Economic Outlook for Austria - 2009 To Be
First Recession Year Since 1981

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¶1. SUMMAARY: Austria's economy began to weaken in the second quarter in reaction to the world downturn and is now in recession. The two leading Austrian economic institutes downgraded their GDP growth estimates for 2008 to 1.8%; 2009 is expected to be the first full-year recession since 1981. The economy is projected to contract by around 0.5% in 2009 due to shrinking exports and investments, despite modest growth in private consumption. For 2010, the institutes project a recovery with growth of 0.9-1.3% but warned of continued downside risks. Unemployment will rise to 3.9-4.1% in 2009. Inflation will ease from 3.2% in 2008 to 1.2-1.5% in 2009. The budget deficit will spike from only 0.6% of GDP in 2008 to about 2.8% in 2009 and most likely above 3% in 2010. Bleak as they are, these forecasts are still more optimistic than outside (EIU) estimates. END SUMMARY.

Forecasts Rushing to Catch Up with Recession

¶2. The Austrian Institute for Economic Research (WIFO) and the Institute for Advanced Studies (IHS) recently issued revised growth projections for 2008 and 2009 and a first outlook for 2010. The financial crisis has reached Austria's real economy and especially exports, the driving force behind growth in recent years. The institutes now peg 2008 growth at 1.8%. Quarter-to-quarter GDP data show the rapid slide:

2008 Q1: 0.5%
Q2: 0.3%
Q3: 0.1%
Q4: Recession (ongoing)

2009: Austria's First Recession Year Since 1981

¶3. Three months ago, the institutes still projected growth of 0.9-1.2% for 2009: now they say with virtual certain that Austria will have its first full-year recession since 1981 (it had a two-quarter mini-recession in 1992/1993). The economy is projected to shrink around 0.5% in 2009, with the first two quarters being the worst. Stabilization but no growth is expected for the latter part of the year. Exports, so far the drivers of the Austrian economic growth are projected to decline in 2009, as will investment. Private consumption will grow slightly (not enough to offset other negative GDP components) based on over 3% growth in after-tax incomes (negotiated wage increases, declining inflation and a planned 2009 tax cut). At

the same time, the savings rate will increase from 11.8% of disposable income in 2008 to 13.1% in both 2009 and 2010. GOA fiscal stimulus (infrastructure projects, measures to stimulate investments, credit guarantees and subsidized loans for SMEs, etc.) will help make the recession in Austria less severe than in the Euro-zone (minus 1.2%). Inflation is no longer a problem.

Modest Recovery in 2010?

¶4. For 2010, the institutes expect modest growth of 0.9-1.3%, due in part to medium-term impact of fiscal stimulus. Exports are expected to recover somewhat, investment will grow slightly, and private consumption will continue to be a stabilizing element.

Other Forecasts and Risks Involved

¶5. This year's Austrian forecasts have tracked the severe downward slide in the world economy. In October, WIFO and IHS had projected 2009 growth of 0.9-1.2% and the IMF 0.8%; November forecasts of the EU Commission and the OECD were for 0.6% and -0.1%, respectively; the December forecasts of the Austrian National Bank (OeNB) was for -0.3% and of Bank Austria, Austria's largest bank, for -0.5%. The December forecast of the Economist Intelligence Unit is even for -1.2%, and now the OeNB is also talking of a deeper recession than currently predicted.

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¶6. At a press conference, WIFO Director Karl Aiginger and IHS Director Bernhard Felderer talked of a severe and prolonged recession with overwhelming downward risks. Projections assume a slow calming of the financial crisis. Both economists approve of the GoA economic stimulus package but would prefer future-oriented measures in lieu of "emergency" measures. Aiginger and Felderer urged the GoA to swiftly implement the bank rescue package -- since the GOA has still not paid its promised funds to re-capitalize banks.

Assumptions for Growth Forecasts

¶7. The institutes based their revised 2009/2010 forecasts on the following assumptions:
-- U.S. growth of -0.8% (IHS) / -1.7% (WIFO) in 2009 and 0.25% (WIFO) / 1.5% (IHS) in 2010;
-- Euro-zone growth of -0.5% / -1.2% in 2009 and 0.5-1.3% in 2010;
-- EU-27 growth of -0.5% / -0.8% in 2009 and 0.7-1.3% in 2010;
-- German growth of -1% / -1.2% in 2009 and 0.4-1.3% in 2010;
-- oil \$55 per barrel in 2009 and \$60-70 in 2010;
-- USD/EUR 0.77-0.80 in 2009 and 2010 (see annex)

Can the Labor Market Sail Through?

¶8. The labor market is deteriorating quickly but not as severely as expected. After record employment growth of 2.4% in 2008 and a low unemployment rate of about 3.5%, the institutes project an unemployment rate of 3.9-4.1% in 2009 and 4.1-4.7% in 2010. If forecasts hold, 4.7% is still below the levels of 2004-2006, years with good economic growth. COMMENT: The GOA, which will soon hold an "auto summit" to address the crisis in Austria's automotive supplier industry, does not appear to share this optimism.

Budget Deficit To Exceed 3% of GDP Soon

¶9. The federal budget benefited from strong revenues though the first half, but the GoA spent those revenues in pre-election handouts to compensate for inflation (reftels) with a deficit of 0.6%/GDP for 2008. The 2009 budget is not yet available, but economic stabilization measures (about 2% of GDP) will drive the public sector deficit to at least 2.5-2.8% in 2009 and 3.2-3.3% in 2010. Aiginger and Felderer see no problem in exceeding the 3% Maastricht deficit limit, but complained that the GOA missed its chance to run surpluses in good years would have given greater scope for action now. They criticized the GoA's data submission (reported to Brussels for the 2007-2010 stability program) as unrealistic. NOTE: Finance Minister Proell is expected to submit the 2009 federal budget to Parliament on April 21; final parliamentary approval is scheduled for May 29, 2009.

¶10. Statistical Annex

Forecasts of Austrian Economic Indicators (percent change from previous year, unless otherwise stated)

| | WIFO 2009 | IHS 2009 | WIFO 2010 | IHS 2010 |
|---------------------|--------------|-------------|--------------|-------------|
| Real change: | | | | |
| GDP | -0.5 | -0.1 | 0.9 | 1.3 |
| Manufacturing | -2.8 | n/a | 2.0 | n/a |
| Private consumption | 1.0 | 1.4 | 1.0 | 1.1 |
| Public consumption | 1.0 | 0.3 | 1.0 | 1.0 |
| Investment | -3.8 | -1.9 | 0.3 | 0.6 |
| Exports of goods | -0.5 | -2.0 | 1.5 | 3.0 |
| Imports of goods | 0.3 | -1.0 | 1.3 | 2.3 |

| | | | | |
|-----------------------|-------|-------|-------|-------|
| Nominal (EUR billion) | | | | |
| GDP | 285.4 | 286.9 | 291.7 | 295.7 |

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|--|------|------|------|------|
| Other indicators: | | | | |
| GDP deflator | 1.7 | 1.7 | 1.3 | 1.8 |
| Consumer prices | 1.2 | 1.5 | 1.5 | 1.7 |
| Unemployment rate | 3.9 | 4.1 | 4.1 | 4.7 |
| Current account (in percent of GDP) | 2.6 | n/a | 2.4 | n/a |
| Exchange rate (US\$ 1.00 in Euro) | 0.80 | 0.77 | 0.80 | 0.77 |

Note:

WIFO - Austrian Institute for Economic Research

IHS - Institute for Advanced Studies

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